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C O N F I D E N T I A L SECTION 01 OF 02 VILNIUS 000811

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COMMERCE FOR ITA:LMARKOWITZ

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TAGS: [ENRG](#) [ECON](#) [EPET](#) [LH](#)

SUBJECT: LITHUANIA HOPING TO MOVE AHEAD ON ENERGY ISSUES

REF: VILNIUS 796

Classified By: Ambassador Cloud for reasons 1.4 (b) and (d).

11. (C) Summary. DCM met November 7 with Darius Degutis, MFA, Ambassador at Large, Economic Security Policy Department. Degutis's direct responsibilities include international energy projects such as the proposed Polish & Swedish power bridges and the new Ignalina Nuclear Power Plant (INPP). He told us the planned power link with Sweden is moving forward following the recent signing of the first stage of the feasibility study. Although the Polish power bridge is temporarily in limbo due to recent Polish demands to link signing of a bridge agreement with a guarantee of power from the new INPP, Degutis was optimistic an agreement could be reached in the near term with the new Polish government. He said President Adamkus will visit Poland November 11 and Sweden November 13-14 and will try to expedite these projects. End summary.

Polish Power Bridge

12. (C) The first segment of the Polish power bridge could be ready by 2012 if a project company of equal Polish and Lithuanian ownership is established by January 1, 2008, according to Degutis. The first segment of the bridge would connect the Kruonis hydro power station with Alytus, Lithuania and Elk, Poland. According to Degutis, the Poles see the business logic in connecting the Kruonis power station to the bridge. (in contrast, the Economy Minister told the Ambassador October 25 Poland did not accept the offer of Kruonis generated power in lieu of a guarantee of power from the new INPP (reftel)).

13. (C) Polish demands to link the construction of the power bridge to a guarantee of at least 1,200 MW from the new INPP derailed a September plan to sign an agreement between Polska Grupa Energetyczna and Lietuvos Energija, the two companies involved in the power bridge project. Degutis echoed what the Minister of the Economy told us October 25th (reftel): Lithuania cannot guarantee for any partner in the new INPP project, including itself, a specified amount of electricity because no one yet knows the generating capacity of the new INPP. Degutis added that Lithuania remains ready to sign an agreement for the power bridge with Poland (delinked from INPP issues) and hopes that the agreement will be signed soon. Degutis remarked that the feasibility study for the Polish power bridge stated that the project was economically viable without a power guarantee from the new Ignalina plant. He said the Poles will be able to upgrade their power infrastructure in Northeastern Poland, in preparation for the power bridge, using EU funds.

14. (C) Degutis stressed that linking Lithuania with the Western European power grid is not indicative of a pan Baltic

desire to cease electricity trading with Russia. Transfer stations will be established on the eastern borders of the Baltic countries so electricity can be traded between the two grids. Lithuania's goal, however, is a synchronous connection for Lithuania with the Western European power grid (UCTE).

Swedish Power Bridge

¶15. (C) Degutis said that the GOL hopes this project will also be completed by 2012. He explained that November 5 Lietuvos Energija and Svenska Kraftnat signed the first stage of the feasibility study and an environmental study will be done as well. President Adamkus will visit Stockholm the week of November 12 and will try to expedite the process. (The local Swedish embassy told us the same day that it was not happy Lithuania is trying to treat the power link as a bilateral governmental issue, rather than a private sector project).

Ignalina NPP

¶16. (C) Degutis said the GOL hopes the proposed INPP will be a 2 unit, 3,200 MW plant. The GOL's minimum requirement is 1,100 MW. Degutis stressed, however, that they will not know how large a plant can be built until after the project is fully scoped and the environmental impact study determines if the adjacent Druksiai lake has enough cooling capacity for a large NPP, or whether other technology exists to cool the new INPP in other ways. Degutis said the GOL hopes the INPP would be completed by 2015 but that might slip 1 or 2 years. Degutis cautioned that the construction of the new INPP must

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be taken step by step. The task at hand for the GOL is establishing a national investor company in Lithuania for the new INPP, which he presumed will be done in December 2007 or January 2008, after asset valuation of the three Lithuanian firms that will make up the national investor is complete.

¶17. (C) Degutis said he did not expect EU permission to keep the old INPP open past the accession treaty requirement of ¶2009. Lithuania is now adding power generating capacity to make up for the loss from the closure of the old INPP. However, this capacity will rely upon fuel (natural gas) from one, not recently reliable source: Russia. Degutis expressed the hope that the EU would intervene, if necessary, with Poland and Sweden to ensure that Lithuania's power links with Western Europe were built in a reasonable amount of time.

Liquefied Natural Gas (LNG)

¶18. (C) Degutis said that LNG is a priority for the GOL, and noted that the Ministry of the Economy is reviewing a pan Baltic LNG option. (NOTE. This comment differs from the Minister of the Economy's statement that Estonia and Latvia expressed little interest in Lithuanian overtures to discuss an LNG terminal. Thus, Lithuania would consider a terminal of its own in Klaipeda).

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